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FINANCIAL AND COMPLIANCE AUDIT REPORT

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

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CERTIFIED PUBLIC ACCOUNTANTS

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MISSOULA, MONTANA

FINANCIAL AND COMPLIANCE AUDIT REPORT

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

AUDIT ORGANIZATION

McGLADREY HENDRICKSON & CO.

BILLINGS, MONTANA

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Prime Sponsor's Response to Findings and Recommendations

McGladrey Hendrickson & Co.
CERTIFIED PUBLIC ACCOUNTANTS

To the Legislative Audit Committee
Montana State Legislature
Helena, Montana

SUMMARY

We have examined Schedules A and B which summarize reported financial results and cash position of the subgrant awarded by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council to the Missoula Vocational Technical Center, Missoula, Montana, under U.S. Department of Labor Grant No. 30-9-210-18. The Prime Sponsor Subgrant, No. 9190, was funded from CETA Title II ABC for the period 10/1/78 - 9/30/79.

The audit disclosed:

- Time and attendance records were not generally maintained for instructors paid on a daily basis.
- Indirect costs were claimed without an approved indirect cost plan

Exhibit I lists $3,592 of questionable expenditures disclosed by the audit. The determination as to whether the costs will be allowable or unallowable under the subgrant will be made by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council. Exhibit I was not prepared for purposes of statistical projection.

SCOPE OF AUDIT

This report covers our examination of the financial results of program operations of the Subgrantee for the subgrant and the period referred to in the preceding Summary.

Our examination was made in accordance with instructions contained in the CETA Financial and Compliance Audit Guide and provisions of the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions", promulgated by the Comptroller General, which pertain to financial and compliance audits.

Our examination included such tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances.

The aforementioned Schedules are required to be prepared in accordance with the Standards for Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) in conformity with the CETA Regulations; therefore, they are not intended to present either the financial results of operations or financial position in conformity with generally accepted accounting principles.

Statistical sampling is the preferred method of selecting a sample. Accordingly, in any area where the volume of transactions and record locations would permit, we have used statistical sampling for purposes of determining the audit sample size, selecting the sample items and evaluating the results for the periods examined. Our tests were designed on an attribute sampling basis, based on an expected rate of occurrence of 3% and a confidence level of 90%.

BACKGROUND

Our audit consisted of an examination of the financial and program records related to the CETA program operated by this Subgrantee.

The objectives of the audit were to determine whether the financial operations were properly conducted and documented, whether the Schedules were fairly presented and whether the Subgrantee complied with applicable laws and regulations. Our examination did not include a review of economy and efficiency or a review to determine whether desired results or benefits were achieved.

The audit was made by arrangement with the Prime Sponsor, State of Montana, Department of Labor and Industry, Governor's Employment and Training Council, to provide audits required by the United States Department of Labor and to provide the Prime Sponsor with information about the Subgrantee. The audit covered the period October 1, 1978 to September 30, 1979.

The Subgrantee examined in this audit was the Missoula Vocational Technical Center. This was the first subgrant between the Prime Sponsor and the Subgrantee. Consequently, there was no prior year audit report.

OPINION

Exhibit I lists $3,592 of questioned costs disclosed by our audit sampling of the Subgrantee's subgrant records for the period referred to in the preceding Summary. The determination as to whether such costs will be allowable or unallowable under the subgrant agreement will be made by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council.

In our opinion, subject to any effects of the ultimate resolution of questioned costs, Schedules A and B present fairly, for the dates and period indicated on the Schedules, the financial results of operations and CETA cash position of the subgrant awarded to the Missoula Vocational Technical Center in accordance with the Standards for Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) and in conformity with the CETA regulations; and Exhibit I presents fairly the costs questioned as a result of our audit.

FINDING AND RECOMMENDATION

Indirect Costs

The Subgrantee has claimed indirect costs using a rate which was not the result of a plan submitted for approval by the Prime Sponsor. The subgrant agreement provides that only direct administrative costs are allowable unless the Subgrantee develops, submits and obtains approval by the Prime Sponsor of an indirect cost plan. The indirect costs claimed by the Subgrantee are not in accordance with the terms of the subgrant.

Recommendation

The Subgrantee should obtain approval of its plan before claiming indirect costs.

REVIEW OF INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

As part of our examination, we made a study of the systems of internal accounting and administrative control to the extent we considered necessary to evaluate the systems as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and administrative control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the period referred to in the preceding Summary would not necessarily disclose all weaknesses in the system; however, in our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations except as follows:

Time and Attendance Reports

Instructors who are compensated on a daily basis are not required to submit time and attendance records. This does not provide adequate documentation control over the instructors' attendance and basis of compensation.

Recommendation

Good internal control procedures would require time and attendance reports from instructors. This procedure should be implemented.

EXIT CONFERENCE

An exit conference was held at Missoula, Montana on March 6, 1980. Those in attendance were:

Subgrantee- John Griese, Director of Federal Programs
Auditor- William Erickson, Staff

Audit findings and recommendations were discussed. General agreement was reached as to the need for change.

This report is intended for use in connection with the administration of CETA grants to which it refers and should not be used for any other purposes.

McGladrey Hendrickson & Co.

Billings, Montana

March 6, 1980

MISSOULA VOCATIONAL TECHNICAL CENTER

CETA SUBGRANT NO. 9190, TITLE II ABC

STATUS OF FEDERAL CASH

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

CASH ON HAND, October 1, 1978	$ -
INCREASES-	
Federal cash received	20,666
DECREASES-	
Gross disbursements	21,429
CASH (DEFICIT), September 30, 1979 (Note 2)	$ (763)

See Notes to Schedules and Exhibits.

Schedule B

MISSOULA VOCATIONAL TECHNICAL CENTER

CETA SUBGRANT NO. 9190, TITLE II ABC

ADULT BASIC EDUCATION

STATEMENT OF ACCRUED EXPENDITURES

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

COST CATEGORY	Total Subgrant Budget	Total Accrued Expenditures
Administration	$ 2,871	$ 3,219
Training	19,707	18,628
Totals	$ 22,578	$ 21,847

See Notes to Schedules and Exhibits.

Exhibit I

MISSOULA VOCATIONAL TECHNICAL CENTER

CETA SUBGRANT NO. 9190, TITLE II ABC

SUMMARY SCHEDULE OF QUESTIONED COSTS

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

COST CATEGORY	Total Amount Questioned	Supporting Exhibit
Administration	$ 386	I-A
Training	3,206	I-A
	$ 3,592	

See Notes to Schedules and Exhibits.

MISSOULA VOCATIONAL TECHNICAL CENTER

CETA SUBGRANT NO. 9190, TITLE II ABC

DETAILED SCHEDULE OF QUESTIONED COSTS

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

1. Administration of $386 was questioned because it was claimed by the Subgrantee by use of an indirect cost rate not approved by the Prime Sponsor. The subgrant agreement permits only direct administrative costs unless the Subgrantee has obtained an approval of its rate from the Prime Sponsor. The full amount of the indirect cost has been questioned.

2. Training of $3,206 was questioned because time and attendance records for instructors compensated on a daily basis were not required. It is necessary that costs be supported by adequate documentation and lack of time and attendance records fails to provide that documentation. The full amount of salary and fringe benefits have been questioned as follows:

Month	Wage	Fringe Benefits	Total
6/79	$ 1,141	$ 70	$ 1,211
7/79	267	34	301
8/79	308	38	346
9/79	1,130	218	1,348
	$ 2,846	$ 360	$ 3,206

See Notes to Schedules and Exhibits.

NOTES TO SCHEDULES AND EXHIBITS

1. SIGNIFICANT ACCOUNTING POLICIES AND PROGRAM INCOME:

The Schedules have been prepared in accordance with instructions contained in Standards For Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) and in conformity with CETA Regulations. In accordance with these instructions, federal funds received are recognized when cash is received. Expenditures are recognized when incurred. This basis of accounting is not in accordance with generally accepted accounting principles.

No program income was received by the subgrant program during the period covered by these Schedules.

2. CASH DEFICIT:

The subgrant had a cash deficit as of September 30, 1979. This deficit resulted from insufficient cash drawings near the end of the subgrant period, and was being covered temporarily by cash in the Subgrantee's other programs.

APPENDIX

DEPARTMENT OF LABOR AND INDUSTRY
EMPLOYMENT AND TRAINING DIVISION

THOMAS L. JUDGE, GOVERNOR
STATE CAPITOL
STATE OF MONTANA
(406) 449-5600
HELENA MONTANA 59601

September 22, 1980

Matt Himsl, Chairperson
Legislative Audit Committee
Montana State Legislature
Office of Legislative Auditor
State Capitol
Helena, MT 59601

Dear Mr. Himsl:

Enclosed is the draft Audit Report which we have accepted for Missoula Vocational Technical Center for CETA Fiscal Year 1979 Subgrant:

9190 - Title IIABC, Adult Basic Education

This audit was conducted by McGladrey, Hendrickson & Co., CPA's, under contract with the Employment and Training Division, Department of Labor and Industry. The comments and recommendations contained in this report represent the views of the auditing firm.

Upon your review of this audit report, we will begin a 120 day resolution process with the subgrantee as follows:

1. A copy of the final audit report will be sent to the subgrantee for a thirty (30) day comment period. All findings and recommendations are to be addressed by the subgrantee in their response.

2. The Employment and Training Division will issue a written initial determination which will include a notice giving the subgrantee the opportunity for informal resolution.

3. The subgrantee must request an opportunity for informal resolution within ten (10) days in writing. Following the meeting of all appropriate parties, the Employment and Training Division will notify the subgrantee in writing of the nature of the resolution, if all matters have been informally resolved.

4. The Employment and Training Division will issue a final determination no later than 120 days after the audit report has become final. The final determination will include those matters which were not informally resolved, corrective actions which will be necessary, and inform the subgrantee of the opportunity to request a hearing. Within thirty (30) days of

the receipt of the final determination, the subgrantee must submit in writing a request for hearing to the Employment and Training Division.

The Employment and Training Division will attempt to recover all funds which were not expended in accordance with CETA law and regulations. We will also follow-up on any corrective actions necessary for the subgrantee.

Sincerely,

T. GARY CURTIS
Administrator

Enclosure

FB2/A